

INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY

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INTRODUCTION

Description of PERF

The Indiana Public Employees' Retirement Fund ("PERF") was established in 1945, to provide retirement, disability, death, and termination benefits to present and former members and their beneficiaries who meet the statutory requirements for such benefits. Members include employees of the State and employees of other governmental units who have adopted resolutions joining PERF (including cities, towns, counties, and other governmental units). Pursuant to Indiana law and the Internal Revenue Code, PERF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. PERF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, PERF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. PERF is also governed by Indiana statutes and administrative rules. Among the governing Indiana statutes is the requirement that PERF be funded and maintained on an actuarially sound basis. See IC 5-10.2 and IC 5-10.3. Additionally, PERF's Board of Trustees (the "Board") is charged with the administration and trusteeship of the following: The 1977 Police Officers' and Firefighters' Pension and Disability Fund, The Judges' Retirement System, The Legislators' Retirement System, which includes the Legislators' Defined Benefit Plan and the Legislators' Defined Contribution Plan, The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Officers' Retirement Plan, The Prosecuting Attorneys' Retirement Fund, and the Pension Relief Fund.

Description of Primary Statutory Investment Provisions

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996.

Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.3-5-3.

Other Restrictions on Investments

Other pertinent investment requirements in the Indiana statute include the following:

- 1) Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. IC 5-10.3-5-4(a). All Custodians must be domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana. IC 5-10.3-5-5.
- 2) The Treasurer of the State must receive all Fund deposits (e.g., income, interest, receipts, etc.). IC 5-10.3-5-4(a).

Background of Investment Policy

The Board has maintained an investment policy for many years. That policy has been amended and restated from time to time as the Board deemed appropriate. The Board adopted a set of guiding principles on November 15, 1996, as well as Investment Policy Goals and Guidelines. The Board determined it was appropriate to completely restate its policy to incorporate appropriate principles, and to reflect the extensive work done by the Board following passage of Senate Enrolled Act 69 (the prudent investor standard) and Question 2 (the equity referendum on the November 1996 Indiana ballot to allow equity investments). That restatement was dated September 12, 1997, and the Board has subsequently amended that restatement. The Board wishes to restate its policy to reflect those amendments, changes in applicable law, as well as other amendments it believes appropriate.

The Board intends this Policy to augment the governing laws, and supersede all prior statements of policy, principles and guidelines. This Policy is binding on all persons with authority over Fund assets, including Investment Managers, Custodians, Consultants, Staff, and the Board, as well as any other person who could have a relationship with the Fund.

Scope of Investment Policy

This Policy covers all assets under the Board's control except to the extent the following are specifically addressed in an Addendum:

- 1) Securities Lending Collateral Reinvestments
- 2) The Annuity Savings Accounts in PERF
- 3) Private Equity Investment Procedures
- 4) Alternative Investment Information Disclosure Policy
- 5) Investment Procurement
- 6) Securities Litigation
- 7) The Pension Relief Fund
- 8) Absolute Return Investment Procedures
- 9) Real Assets Investment Procedures
- 10) Cash Equitization Procedures

References in the balance of this Policy to "Fund" will include all assets under the Board of Trustees' control except to the extent appropriate for the assets listed in the preceding paragraph.

SECTION 1. PURPOSE OF POLICY

The purpose of the Investment Policy is to:

- 1) Set forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets.
- 2) Establish criteria against which the Investment Manager(s) are to be measured.
- 3) Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants, and all other interested parties.
- 4) Serve as a review document to guide the ongoing oversight of the investment of the Fund.
- 5) Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Fund solely in the interests of members and beneficiaries of the Fund.

The Board does intend this Policy to be a dynamic document, and, as such, expects to review it periodically. The Board anticipates that changes will be made from time to time to reflect experience, investment product changes, benefit and structural changes, performance and economic conditions.

SECTION 2. STATEMENT OF GUIDING PRINCIPLES

The Board has adopted a set of guiding principles for oversight and management of Fund investments.

They are as follows:

- 1) Investment of Fund assets will be delegated to Investment Managers pursuant to Section 12.
- 2) The Board will employ Investment Managers with understandable, clearly defined investment strategies pursuant to Section 7.
- 3) It is not the intent of the Board to engage in market timing by making short term tactical shifts in allocations in an attempt to enhance returns (“day trading”). It is important to recognize, however, that movements in allocations will occur over time, like transitioning from one asset allocation to another. It is the intent of the Board to take full advantage of the knowledge and recommendations of staff, consultants, and outside investment professionals to manage through these transitions in the most prudent manner possible. The Board recognizes that funding of individual mandates may be accelerated or delayed based on market conditions prevailing at the time of funding new mandates.
- 4) The Board will manage the investment of the assets in a cost effective manner.
- 5) The Board prefers to employ Investment Managers that maintain fully invested positions rather than using cash equivalent or short term investments as a strategy alternative.
- 6) The Board will maintain a prudent investor profile, consistent with its fiduciary responsibility to invest the assets solely in the interests of its beneficiaries.
- 7) The priority of all investments will be consistent with optimizing diversification benefits.
- 8) The Board intends to incorporate risk management concepts focused on moderating or controlling, to the extent reasonable and practical, risks normally associated with investment.
- 9) The Board realizes that the plans under its trusteeship may have different funding positions and needs, different population demographics, and different time horizons, which may create different investment needs or requirements.
- 10) Because the Board’s first priority is its fiduciary duty to Fund participants, the Board and its agents shall not make investment decisions based on perceived social effects (also known as socially responsible investing), to the extent the investment decision is not also in the best interest of the Fund’s participants and complies with the Board’s prudent investor duties under IC 5-10.3-5-3.

SECTION 3. RESPONSIBLE PARTIES AND THEIR DUTIES

In addition to the responsibilities outlined in the Statement of Board Governance with respect to the Board, Staff and Executive Director, the following parties will be engaged by the Board to provide services to the Fund:

Investment Manager

An Investment Manager is a person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (i.e., banks and insurance companies and affiliates) and must acknowledge its fiduciary responsibility to the Fund in writing. Further, SEC registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis.

Custodian

A Custodian for the Fund is a bank or trust company which is retained by the Board. A Custodian may be authorized to (1) hold securities and other investments in the name of the Fund, in the name of a nominee of the Custodian, or in bearer form; (2) collect and receive income, interest, proceeds of sale, maturities, investments; deposit all these receipts in a custodian account or checking account as instructed by the Board; and reinvest these receipts as directed by the Board; (3) maintain accounting records and prepare reports which are required by the Board and the State Board of Accounts; (4) perform other services for the Board as are customary and appropriate for custodians; and (5) if retained, to conduct any analysis required by the Board.

Consultants

Consultants are persons or firms who are retained by the Board for the Fund and responsible for providing investment advice to the Fund, based upon their expertise and their analysis of the issues under consideration.

Responsibilities of Investment Managers and Consultants

Each Investment Manager and Consultant retained by the Fund shall be notified in writing of the Board's Code of Ethics and the related Conflict of Interest laws of the State of Indiana, and of the Board's adoption of this Code. All Investment Managers shall strictly conform to the Board's Code of Ethics. Any suggestion or offer to deviate from these provisions made by a Board member or Staff member shall be reported by the Investment Manager or Consultant, in writing, to all members of the Board.

The Board recognizes that Investment Managers and Consultants have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Investment Managers, Consultants, Custodians or Staff. Any such incidents should be reported, in writing, by the Investment Manager or Consultant to all members of the Board.

All persons retained in any capacity which have fiduciary responsibilities are expected to abide by the provisions of the Board's Code of Ethics.

SECTION 4. GENERAL OBJECTIVES

The investment activities are to be designed and executed in a manner that serves the best interests of the members and beneficiaries of the Fund.

The investment activities are designed to provide a return on Fund assets that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the Fund. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plans' actuarially determined liabilities over time, in a cost effective manner to the members and the taxpayers of the State.

The Board has the authority and intends to establish allocations to various asset classes and subcategories as described in Section 5, subject to general and specific guidelines established in Section 7. Evaluation of Investment Managers' performance and total Fund performance will be done pursuant to Section 6.

SECTION 5. ASSET ALLOCATION

The Board recognizes that the allocation of assets is the most important determinant of investment rates of returns over long periods of time.

Background Information

To guide their selection of the best asset mix, the Board considered the linkage of liability projections with asset projections over future time periods. Key factors were the "Employers' Contributions as a Percentage of Pay" and the "Funded Ratios" which would be necessary to provide the promised benefits to Fund beneficiaries.

Selected Allocations

The following asset classes, target norms, and allowable ranges have been established.

Asset Classes	Target Allocation	Target Range
EQUITIES		
Domestic	15%	10% to 20%
International	15%	10% to 20%
Global	10%	5% to 15%
FIXED INCOME		
Core & Core Opportunistic	20%	15% to 25%
TIPS	10%	5% to 15%
ALTERNATIVES		
Private Equity	10%	5% to 15%
Real Assets	10%	5% to 15%
Total Return Strategies	10%	5% to 15%

Within each asset class, the Board in its discretion may establish subcategories. Investment staff will be charged with monitoring individual asset classes and rebalancing as necessary to keep the portfolio within the Board-approved ranges.

Review

The asset allocation will be reviewed periodically, but no less frequently than every three years. Asset liability modeling studies will be conducted as the Board determines necessary.

SECTION 6. PUBLIC MANAGER AND TOTAL FUND EVALUATION & PROCEDURES

Introduction

The Board recognizes the need to evaluate the investment performance of the Investment Managers who have been delegated the duty to invest the assets of the Fund, and further recognizes that Investment Managers are under a strict fiduciary duty to the Fund. Further, the Board recognizes the need to evaluate the performance of the total Fund. Therefore, the Board wishes to establish clear standards for execution of this fiduciary duty. Staff shall evaluate the performance of each Investment Manager pursuant to the procedures outlined below. Periodic reports from investment staff should supply critical information on a continuing basis, such as the comparative investment performance, portfolio positions relative to stated strategy, and other perspectives of the Portfolios as requested by the Board. The reports should be examined to determine whether investment policy guidelines are being followed, and the Fund as well as the individual Investment Managers meet the established objectives.

Performance Evaluation Factors for Total Fund

The key factors to be used in the analysis of the investment performance of the total Fund include:

- 1) The funded status of the Fund.
- 2) Investment rate of return and volatility of the Fund, compared with a weighted average of market indexes which best describe the Fund's allocation.
- 3) Investment rate of return of the Fund, compared with other large private and public pension funds with special emphasis on other large public funds.

Performance Evaluation Factors for Investment Managers

The investment staff shall review at least quarterly the performance of the Fund and of each Investment Manager Portfolio relative to the objectives and guidelines described herein. The key comparative factors to be used in the analysis of the performance of an Investment Manager include:

- 1) Investment rates of return of the Investment Manager compared to an appropriate market index benchmark.
- 2) The volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index benchmark.

Further, the investment staff shall at least annually consider:

- 1) staffing of personnel
- 2) stability of business
- 3) changes in product offerings
- 4) organizational structure
- 5) conformance to this policy

- 6) changes in investment strategy and developments in capital markets as they impact strategy
- 7) changes in resources
- 8) performance against relevant peer groups
- 9) Client Service

Rates of return for an Investment Manager will be calculated based on the total of the Investment Manager's allocation of Fund assets.

Volatility will be measured by the standard deviation of the historical series of rates of return over a period of not less than three years.

Compliance with the Fund's guidelines applicable to the particular asset class under management will be considered in the evaluation of the Investment Manager's performance within its specific style.

Performance Evaluation Standards

Rates of return will be evaluated on both a gross and net of fee basis. The calculation of the investment rates of return will be consistent with the following procedures. In order to provide more definition and consistency, one year, three year, five year, and rolling three and five year periods will be used. Rolling periods shall be defined as a three (or five) year period beginning with the earliest reasonable date and including subsequent three (or five) year periods each beginning one year later until the ending date is the end of the current period. If needed to further evaluate investment performance, other time periods may be employed.

The following standards will be used as a guideline for the evaluation of the investment performance of the Investment Managers:

- 1) Gross of fee rates of return ranking at or above the median of an appropriate universe or style peer group of investment managers, on one year, three year, and rolling three year periods.
- 2) Net of fee rates of return exceeding an appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.
- 3) Risk - adjusted rates of return exceeding an appropriate market index benchmark, on a three year, rolling three year, five year and rolling five year periods.
- 4) Volatility consistent with the assigned asset class, and relative to the appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.

Performance Measurement

A time-weighted return formula (which minimizes the effect of contributions and withdrawals) should be utilized. The services of an outside, independent consulting firm providing performance measurement and evaluation may be retained. Investment Managers will be expected to comply with the CFA Institute's Global Investment Performance Standards (GIPS) in calculating and reporting their investment performance. The Fund, and any firms retained by the Fund will also adhere to the GIPS Standards.

Meetings

The Investment Manager(s) are expected to meet at least annually with the investment staff to review the Portfolio and investment results in the context of this Policy.

Compliance Report

Annually, the investment staff will confirm that the Fund and each of its managed Portfolios have complied with the Investment Policy Statement and contract guidelines.

Reporting Procedures for Investment Managers

The Investment Manager shall:

- 1) Prepare a quarterly report to be delivered to investment staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover:
 - a) any changes in the firm's structure, professional team or product offerings;
 - b) a review of recent and anticipated investment activities;
 - c) an analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since the last report;
 - d) a summary of the key characteristics of the Portfolio; and
 - e) other matters as requested by the Fund from time to time.Periodically, the Staff will provide the Investment Manager with a detailed description and format for these reports.
- 2) Make a presentation to the investment staff when requested, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the investment staff.
- 3) Meet regularly with the investment staff to discuss the management of the Portfolio, new developments and any other related matters.
- 4) Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the investment staff and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- 5) Advise the investment staff immediately and in writing if any of the following events occur within the Investment Manager organizations:
 - a) a loss of one or more key people
 - b) a significant change in investment philosophy
 - c) a new portfolio manager(s) or account manager(s) on the Fund's account
 - d) a change in ownership or control (whether through acquisition, disposition, merger, consolidation, or otherwise) or in business focus of the Investment Manager
 - e) loss of a significant client relationship(s)

- f) any investigation or action by a federal or state regulatory body
 - any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager.
- The Board reserves the right to suspend or terminate any manager at any time. Such right may be delegated in writing to Fund representatives.

SECTION 7. INVESTMENT GUIDELINES

General Guidelines for Investment Managers

Each Investment Manager retained to manage a portion of the assets (the Investment Manager's "Portfolio") of the Fund shall be aware of and operate within this Investment Policy and governing Indiana statutes. Subject to the guidelines in this Section and the policies documented in this Statement, any Investment Manager retained by the Fund is to have full discretionary investment authority over the assets said Investment Manager is responsible for managing.

As fiduciaries of the Fund, all Investment Managers (regardless of type of investment) will discharge their duties solely in the interests of the Fund's members and beneficiaries and with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. In addition, the Investment Managers, other than Investment Managers covered specifically by Addendums to this policy, shall observe the following rules:

- 1) Specific Limitation on Holdings: The purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 5% or two times the benchmark weight of the market value of an Investment Manager's Portfolio, whichever is greater. Through capital appreciation, no such holding should exceed 10% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

For managers contracted to manage a concentrated portfolio, the purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 7.5% or two times the benchmark weight of the market value of an Investment Manager's Portfolio, whichever is greater. Through capital appreciation, no such holding should exceed 15% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

- 2) Securities Trading: Each Investment Manager is to immediately send copies of each transaction record to the Fund's Custodian(s), and any designated agent of its Custodian(s). Each Investment Manager is further required to reconcile the account(s) under its management on a timely basis each month with the Custodian(s). Each Investment Manager is responsible for complying fully with the Fund's policies for securities trading and selecting brokerage firms.
- 3) Acknowledgments of Legal Compliance: Each Investment Manager retained by the Fund must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and must acknowledge its fiduciary responsibility in writing. SEC registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis.
- 4) Acknowledgments of Receipt: All Investment Managers shall acknowledge in writing their receipt of this Policy and their agreement to abide by its terms. All Investment Managers shall have an affirmative duty to bring suggestions for modification or change to the investment staff.

- 5) Fiduciary Liability Insurance: Each Investment Manager will obtain fiduciary coverage, with a minimum of \$5 Million coverage or \$25 Million in pooled coverage, or in such higher amount as required by the Board from time to time. The fiduciary coverage must cover a loss resulting from a breach of fiduciary duty in providing or failing to provide professional services to the Fund. In some cases, fiduciary coverage may be established through errors and omissions (E&O) or professional liability policies (including, for some Investment Managers, a "blanket bond" if the bond also provides coverage for fiduciary liability), as long as those policies are specifically written to cover fiduciary breaches themselves or include a specific fiduciary liability endorsement or rider.

Each Investment Manager shall annually provide written evidence of such coverage. The Executive Director may approve alternative fiduciary liability insurance arrangements, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- 6) Errors and Omissions Coverage: Each Investment Manager will obtain coverage for errors and omissions to cover a loss due to a mistaken or negligent act or omission (without any exclusions for benefit plans that would exclude services the Investment Manager provides for PERF from coverage), with minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage.

The Executive Director may approve alternative errors and omissions coverage, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- 7) Fidelity Bond: Each Investment Manager will obtain a fidelity bond, which covers loss from acts of dishonesty, theft, or negligence, with a minimum of \$3 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage.

The Executive Director may approve alternatives to a fidelity bond, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- 8) Conflicts of Interest: An Investment Manager through its actions on behalf of the Fund shall not invest any part of the Fund with itself or with any person or entity with which or in which it has any economic interest, unless such Investment Manager receives prior written approval from the Board or with the exception of passive index funds where the Investment manager is a constituent of the index. This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no Investment Manager, through its actions on behalf of the Fund, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such Investment Manager receives prior written approval from the Board.

- 9) **Prohibited Securities and Transactions:** Except as otherwise authorized by the Board, or allowed for in specific asset classes as noted elsewhere in this policy, the following transactions shall be prohibited:
- a) Short sales of any kind
 - b) Repurchase agreements that may create any kind of leverage in the portfolio
 - c) Repurchase agreements as non cash equivalents
 - d) Purchases of letter or restricted stock
 - e) Buying or selling on margin
 - f) Purchases of futures and options
 - g) Entrance into swap agreements
 - h) Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments
 - i) Purchases of Interest Only or Principal Only collateralized mortgage obligations
 - j) Purchases of inverse floaters

In addition to specific items prohibited in this section, the fund may not engage in any “prohibited transaction” as listed under Section 503 of the Internal Revenue Code.

- 10) **Commingled and Pooled Investments:** In accordance with IC 5-10.2-2-2.5, Investment Managers may, with the express written permission of the Chief Investment Officer of the Fund, invest in commingled or pooled funds that otherwise comply with the guidelines in this Policy.
- 11) **Correction of Violations:** In the event a violation of the guidelines occurs, unless otherwise approved by the Executive Director in writing, based upon a determination of the best interests of the Fund, the violation:
- a) Shall be corrected immediately by sale as soon as practicable following detection and notification, unless the Executive Director has agreed in writing to a correction which does not result in immediate disposition or sale
 - b) Shall result in the reimbursement of the Fund by the Investment Manager for any losses which may have been incurred due to the violation
 - c) Shall result in the Fund retaining any gains which are realized from the violation
 - d) May be grounds for termination by the Board
- 12) **Concentration of Assets:** No individual actively managed investment mandate shall comprise more than 5% of the total portfolio’s assets under management at the time of funding. Through appreciation, no individual actively managed investment mandate shall be allowed to grow in excess of 7.5% of the total portfolio’s assets under management without specific Board approval.

General Guidelines for the Investment of the Specific Portfolios

Each Investment Manager will be retained to implement a specific investment strategy for the Fund. This strategy and its underlying philosophy will be described in the Investment Manager's contract and the Portfolio will be managed according to this strategy until such time as the Board and Investment Manager agree in writing to any change.

Specific Guidelines for Domestic Equity Portfolios

Index or Enhanced Index Management

- 1) Description: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depository Receipts (ADRs), that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary modestly from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 2) Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 3) Benchmark: Domestic Russell Indices
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

Active Management

- 1) Description: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depository Receipts (ADRs), that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 2) Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 3) Benchmark: Domestic Russell Indices
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

Capitalization and Style-Specific Active Management

- 1) Description: Investment in a portfolio of equity securities of companies primarily listed or traded on U.S. exchanges or over-the-counter markets, including common stock and American Depository Receipts (ADRs), that substantially matches the composition and characteristics of the index benchmark. This benchmark represents the specific market capitalization range, as well as style (e.g., growth or value), as determined by the Board. However, portfolios are expected to vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 2) Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 3) Benchmark: Domestic Russell Indices.
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

Specific Guidelines for International Equity Portfolio

Index Management

- 1) Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and listed on foreign exchanges or traded on over-the-counter markets that substantially match the composition and characteristics of the market index benchmark. Investment in ADRs (American Depository Receipts) and GDRs (Global Depository Receipts) is permitted.
- 2) Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. No investments in markets defined by MSCI (Morgan Stanley Capital International) as "emerging" are allowed unless approved in advance and in writing by the Board.
- 3) Benchmark: MSCI International Indices
- 4) Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- 5) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
- 6) Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the

index 144A securities, and are issued by a public company but shall not exceed 10% of the portfolio holdings.

Enhanced Index Management

Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and listed on foreign exchanges or traded on over-the-counter markets that substantially match the composition and characteristics of the market index benchmark.

- 1) Investment in ADRs (American Depository Receipts) and GDRs (Global Depository Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary modestly from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 2) Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. Assets held in emerging markets (as defined by MSCI) may not exceed 30% of the portfolio, as measured by market value, unless approved in advance and in writing by the Board.
- 3) Benchmark: MSCI International Indices
- 4) Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- 5) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
- 6) Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company but shall not exceed 10% of the portfolio holdings.

Style-Specific Active Management

- 1) Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and primarily listed on foreign exchanges or traded on over-the-counter markets that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depository Receipts) and GDRs (Global Depository Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary substantially from the index as measured by the statistical characteristics (e.g.,

- 2) Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. Assets held in emerging markets (as defined by MSCI) may not exceed 30% of the portfolio, as measured by market value, unless approved in advance and in writing by the Board.
- 3) Benchmark: MSCI International Indices
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
- 5) Currency Hedging: Currency hedging is at the investment manager's discretion.
- 6) Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company but shall not exceed 10% of the portfolio holdings.

Specific Guidelines for Global Equity Portfolios

Active Management

- 1) Description: Investment in a portfolio of equity securities of companies primarily listed or traded on exchanges and over-the-counter markets throughout the world. Investments in U.S. dollar denominated foreign securities, ADRs (American Depository Receipts) and GDRs (Global Depository Receipts) are permitted. Portfolios are expected to vary in terms of number of securities held and, from time to time, vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 2) Investment Constraints: As specifically stated in each manager's contract. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 3) Benchmark: MSCI Global Indices
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

- 5) Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company but shall not exceed 10% of the portfolio holdings.
- 6) Currency Hedging: Currency hedging is at the investment manager's discretion

Style-Specific Active Management

- 1) Description: Investment in a portfolio of equity securities of companies primarily listed or traded on exchanges and over-the-counter markets throughout the world. Investments in U.S. dollar denominated foreign securities, ADRs (American Depository Receipts) and GDRs (Global Depository Receipts) are permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- 2) Investment Constraints: As specifically stated in each manager's contract. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- 3) Benchmark: MSCI Global Indices
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.
- 5) Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company but shall not exceed 10% of the portfolio holdings.
- 6) Currency Hedging: Currency hedging is at the investment manager's discretion

Specific Guidelines for Fixed Income Portfolios

Passive (Indexed)

- 1) Description: Investment in a portfolio of fixed income securities that substantially matches the quality, coupon, maturity structure and duration characteristics of the benchmark index.

Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US

corporations, foreign sovereign governments and foreign corporations traded on U.S. exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A Securities that are included in the benchmark may be purchased. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities.

- 2) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

Enhanced Index

- 1) Description: Investment in a portfolio of fixed income securities that exhibits characteristics substantially similar to the benchmark index. Portfolios may vary in terms of number of securities held and, from time to time, vary moderately from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, and yield) of the portfolio. The portfolio must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used. It is expected that the strategy employed will produce returns net-of-fees which exceed the benchmark index, and will not incur significantly greater risk.
- 2) Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, and Yankees (bonds that are U.S. dollar – denominated and issued in the United States by foreign entities), foreign sovereign governments and foreign corporations traded on U.S. exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration only, and in no event may leverage be created by any futures contract, individual security, or combination of securities. All holdings will be of sufficient size and held in issues that are trading actively enough to facilitate transactions at a minimum cost and accurate market valuation.
- 3) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

Core

- 1) Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios may vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of

purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 125% of that of the benchmark index.

- 2) Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, Yankees, foreign sovereign governments and foreign corporations traded on US exchanges which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration only, and in no event may leverage be created by any futures contract, individual security, or combination of securities. All holdings will be of sufficient size and held in issues that are trading actively enough to facilitate transactions at a minimum cost and accurate market valuation.
- 3) Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

Core – Opportunistic

- 1) Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios are expected to vary in terms of number of securities held and are expected to vary from the index in terms of statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio. The portfolio must maintain an average credit quality rating of at least investment grade by Moody's or the equivalent. In the case of a split rating, the higher rating will be used. The duration of the portfolio may not vary more than 5 years above or below the duration of the benchmark index.
- 2) Investment Constraints: A maximum of 50% of the portfolio may be invested in securities rated below investment grade. No more than 40% of the portfolio may be invested in emerging markets' debt. Likewise, no more than 40% of the portfolio may be invested in non-U.S. dollar denominated securities. No more than 25% of the portfolio may be invested in bank loans. The exposure from any single non-government or government agency issuer shall comprise no more than 5% of the total allocation of the fixed income portfolio. Derivatives such as options, swaps (including credit default swaps) and futures may be used manage any investment risk, including market, interest rate,

credit, liquidity, and currency risk consistent with managers' guidelines. In no case shall derivative usage bring the portfolio outside of any existing manager guidelines. Derivatives shall not be used for speculative purposes.

- 3) Currency Hedging: Currency hedging is at the investment manager's discretion.
- 4) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

TIPS – Index

- 1) Description: Investment in a portfolio of U.S. or Global Treasury Inflation Protected Securities (TIPS) that substantially matches the quality, coupon, maturity, structure and duration characteristics of the benchmark index.
- 2) Investment Constraints: No securities may be held other than those publicly traded Treasury debt securities unless specifically approved by the Board. Futures contracts may be used for the purpose of investing cash flows or modifying duration only and in no event may leverage be created by any futures contract, individual, or combination of securities.
- 3) Tracking Error: Specific guidelines regarding tracking error will be established in each manager's contract in negotiations with Staff.

SECTION 8. GUIDELINES FOR THE CUSTODIAN

The Board recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. All custodians have a fiduciary duty to Fund assets. The following Fund-related custodial responsibilities have been identified by the Board:

- 1) Provide complete custody and depository services for the designated accounts.
- 2) Provide for prompt investment of any cash.
- 3) Implement in a timely and effective manner the investment actions as directed by the Investment Manager(s).
- 4) Collect and receive all income and principal realizable and properly report transactions in periodic statements.
- 5) Provide monthly and annual accounting statements as well as on-line access accounting for the Fund, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within a time frame acceptable to the Board.
- 6) Report to the staff situations where security pricing is either not possible or subject to considerable uncertainty.
- 7) Distribute to the Investment Manager(s) in a timely manner all proxy voting materials.
- 8) Provide assistance to the Board and Staff, to complete such activities as the annual audit, transaction verification and other issues.
- 9) As requested by Board, provide performance measurement and portfolio analytics for the Fund, consistent with AIMR standards.
- 10) When directed by the Board, and pursuant to a separate, written agreement for securities lending service, implement, in a fair and equitable manner, a securities lending program for the Fund, and report fully on all aspects of its operation and returns.
- 11) The Custodian shall cooperate fully and with all reasonable requests for documents and records made by the Board or a Consultant designated by the Board. The Board (on its own or through its Consultant) shall periodically review its Custodians, including but not limited to, services provided, services available, charges and fees, and reports.

SECTION 9. SECURITIES LENDING POLICY

Background

IC 5-10.2-2-13(d) provides that the Board may authorize a Custodian to enter into a securities lending program agreement under which securities held by the Custodian on behalf of the Fund may be loaned. The purpose of such a program is to provide additional revenue for the Fund. IC 5-10.2-2-13(d) provides that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities.

General Statement With Respect to Board's Intent

The Board intends to maintain a securities lending program, as the Board believes it provides a means of enhancing the overall Fund performance. The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio and tightly controls exposure to fluctuating interest rates. The Board will evaluate the income attributable to the program and the risks inherent in the program. The Board expects each Custodian who has been authorized to enter into an agreement to evaluate at least annually the agent selected by the Custodian and the Board, to offer suggestions with respect to any possible improvements in the program, and to monitor the results of the program (e.g., income, costs associated with the program, issues that arise with respect to the program) and report to the investment staff as directed.

Method of Implementation

The securities lending program may be implemented through a Custodian or through a sub-agent of a Custodian. Subject to the approval of the Board, any current Custodian for the Fund may implement a securities lending program for the assets placed at that particular institution. Any Custodian may utilize a sub-agent at its discretion to conduct its securities lending program in lieu of maintaining an in-house capability. The use of any sub-agent must be approved in advance and in writing by the Board, and such approval may be revoked for any reason by the Board upon five (5) days written notice to the Custodian. It shall be the responsibility of the Custodian to ensure that their sub-agent adheres to all aspects of these Guidelines as well as any additional contracts which exist in addition to these Guidelines.

The specifics pertaining to any securities lending program shall be detailed in a separate Securities Lending Agreement.

Risk Controls

The Custodian and/or securities lending sub-agent will provide agreed upon indemnification to the Fund (the Lender) from and against any losses, damages, costs and expenses which arise from a borrower defaulting on a loan or filing for bankruptcy. Upon notification of default by the borrower, which shall be reported immediately to the Board in writing, the Custodian shall take such actions as are prudent, necessary and appropriate to use the collateral to acquire replacement securities of the exact same type

and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the Fund and to the Investment Manager immediately.

The Custodian and/or securities lending sub-agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The name of borrowers and potential borrowers shall be updated and provided to the Board promptly following the end of each calendar quarter.

The Custodian and/or securities lending sub-agent is responsible for ensuring that all loans are at least 100% collateralized. Specific requirements for the amount of collateral required for loans on each type of security, as well as the quality and guidelines for investment of such collateral shall be defined in the Securities Lending Agreement.

Securities shall not be loaned in excess of forty percent (40%) of the market value of Fund's assets (not be taken on an individual manager account-by-account basis) under the care of the Custodian, marked to market on a day-to-day but not on an intra-day basis.

Cash collateral shall be invested by the Custodian, and/or its security lending sub-agent pursuant to the Addendum for Securities Lending Cash Collateral Reinvestment. All investments shall be subject to the prudent investor rule, IC 5-10.3-5-3.

The Fund shall direct the Investment Manager of the securities to notify the Custodian of any sales by no later than the trade date to permit the Custodian to effect timely return of loaned securities prior to or on the settlement date.

Monitoring

The Custodian and/or securities lending sub-agent is responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns. The Custodian and/or securities lending sub-agent shall cooperate fully with all reasonable requests for documents and records made by the Board and/or an independent certified public accountant selected and retained by the Board to audit securities lending activities.

The Fund shall receive a monthly report of the securities on loan, the income received from loans, the Custodian's and sub-agent fees from loans, the composition of collateral, and the investment characteristics of the collateral. In addition to the monthly report, significant events which require additional reporting shall include but not be limited to borrower list changes, failed trades due to securities on loan, and collateral shortfalls.

SECTION 10. TRADING AND BROKERAGE POLICY

Introduction

The Board intends to fulfill its responsibility for the evaluation and management of transaction costs for the exclusive benefit of members and beneficiaries. To assist in accomplishing these duties, this security transactions policy has been approved by the Board.

Basic Principles

The Board requires that these principles guide all transactions for the Fund:

- 1) Best execution and lowest cost, (including commission costs and market impact) and providing benefits exclusively for members and beneficiaries of the Fund must apply to trades.
- 2) Efforts to reduce trading costs, in terms of both commissions and market impact, provided the investment returns of the Fund are not jeopardized, will be ongoing.
- 3) The Board will retain the ability to enter into brokerage commission recapture agreement(s).
- 4) The Board prohibits any self dealing on the part of any brokerage firm, including any with such a firm's broker affiliate, without specific prior authorization.

Basic Criteria for Selection of Brokerage Firm

The primary responsibility of the Board is to act as a fiduciary to the members and beneficiaries of the Fund. It is the intent of the Board that all transactions of publicly traded securities be effected through brokerage firms, regardless of location, in order to obtain the best execution and lowest cost of the transaction.

Subject to any direction from the Board, each Investment Manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the Fund. Each Investment Manager is also responsible for conducting all appropriate and necessary due diligence on the brokerage firms it selects. Their selection must in all cases be for the exclusive benefit of the Fund's members and beneficiaries and should strive for best execution with lowest cost on trades.

Provided that the total return of a Investment Manager's Portfolio is not adversely affected or that the investment process is not affected so as to place the Fund in a disadvantageous position relative to the Investment Manager's other accounts, and provided that best execution and lowest cost are obtained, each Investment Manager may be requested to direct a percentage of its trading to specified firms for the purpose of brokerage commission recapture programs. In such a case, the Board will select the brokerage firms, with the assistance of the Investment Managers, and establish the expected level of trading to be directed.

Review/Evaluation

At least annually, the investment staff will review all transactions and arrangements, if any, for compliance with these policies through an annual Trading Cost Analysis. The Investment Managers and Custodian(s) providing services shall provide any information necessary or helpful to this review.

Disclosure

In addition, each Investment Manager shall report at least annually on brokerage firms they are using and the terms of that relationship. This disclosure must cover all components of that relationship, including but not limited to, payment for order flow, soft dollars, covered expenses, and the nature of the broker selection process.

SECTION 11. PROXY VOTING POLICY

Introduction

The Fund is a large public pension fund and will become a significant equity investor in the stocks of corporate America. The Board recognizes its responsibilities as a fiduciary of the Fund. The Board believes that a proxy policy is an important element of its overall asset management. As an initial position, the Board believes a delegation of authority to other fiduciaries of the Fund, the Investment Managers, will be the most suitable approach.

Each Investment Manager who is retained by the Fund to buy, sell or manage common stocks which are Fund assets will have the responsibility of voting the common stock. To the extent that a third-party is used to assist in some aspect of the Investment Manager's proxy voting, the Investment Manager must inform the Fund of the third-party used and their exact responsibility. In completing this responsibility, each Investment Manager is expected to take these proxy voting guidelines into consideration.

Guidelines

The Investment Manager is to exercise its proxy voting authority for the exclusive benefit of Fund members and beneficiaries, realizing all Fund assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In voting the proxies of common stocks, the Investment Manager must act with the care, skill, prudence, and diligence of a prudent expert who is similarly situated and knowledgeable in the matters under consideration, as required under IC 5-10.3-5-3. The Board intends that this embody the most rigorous application of this standard, that the Investment Manager act with an eye solely to the best interests of the plan participants. *Leigh v. Engle*, 727 F2d 113, at 125.

These two requirements mandate that the Investment Manager conduct an individual review and analysis of each proxy issue prior to voting. In all cases, the long-term economic best interests of members and beneficiaries should guide the voting decisions.

Reporting Requirements

The Board intends to monitor the voting decisions of Investment Managers. To allow this to occur, each Investment Manager who votes shares of common stock will document such votes and report to the investment staff no less frequently than annually.

The report shall include at a minimum the following:

- 1) A description of the process the Investment Manager uses to ensure that reasonable steps have been taken to allow for the timely voting of all proxies on all stocks which are held as of the record date.
- 2) The action taken on routine proxies.

- 3) The action and rationale taken on non-routine proxies.
- 4) A description of actions in terms of any effects on members and beneficiaries of the Fund, the Indiana economy and any special Indiana issues.

Revocation of Voting Authority

The Board may revoke the authority of an Investment Manager to vote the shares of common stock held by presenting a written revocation of voting authority to the Investment Manager.

SECTION 12. STANDARDS FOR THE SELECTION OF INVESTMENT MANAGERS, CONSULTANTS, AND CUSTODIANS

The Board realizes that from time to time it will need expert assistance in fulfilling its fiduciary duties. The Board expects to retain Custodians, Investment Managers and Consultants to provide such assistance. Each such entity selected will serve as a fiduciary to the Fund.

Basis for Selection

For any type of expertise or assistance which is to be retained by the Board, selection shall only be made based upon the demonstrated ability of the professional(s) to provide the expertise or assistance needed. The Board may from time to time, elect to delegate authority for selection of managers, consultants, or custodians. Such delegation must be clearly defined in writing.

Process for the Selection of Professional Assistance

The process shall conform to the legal requirements for professional service procurement under the State statutes. When deemed necessary by Staff and with the approval of the Board, Consultants or other professionals not involved in the specific selection shall assist in the development of requirements, evaluation standards and analysis of responses for the selection process. It is the intent of the Board that the selection process be open to all qualified organizations wishing to participate.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR SECURITIES LENDING
COLLATERAL REINVESTMENT**

Originally Adopted June 9, 2000

Last Restated December 17, 2004

I. INTRODUCTION

- A. Purpose of the Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy

This Addendum restates and now contains the guidelines for securities lending cash collateral reinvestment.

- B. Statutory Authority

Pursuant to IC 5-10.2-2-13, the Board has the authority to maintain a securities lending program.

II. OBJECTIVES AND STRUCTURE OF THE CASH COLLATERAL REINVESTMENT PROGRAM

The cash collateral fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing cash collateral of this section in high quality fixed income (or adjustable rate) securities. Cash collateral investments emphasize liquidity and principal preservation as prime objectives. Within quality, maturity, and market sector diversification guidelines, investments are made in those securities with the most attractive yields.

III. PERMITTED INVESTMENTS

In reinvesting cash received as collateral pursuant to Securities Lending Agreements, including income received from such collateral, the Securities Lending Agent is authorized and directed to use any of the following types of investments (the "Permitted Investments"):

- A. Short term obligations of corporations, including but not limited to commercial paper, promissory notes, master variable demand notes, and private placements whose commercial paper is rated in the highest category of at least two nationally recognized securities rating organizations (NRSRO) at the time of purchase, or if the corporation has not received a rating from any NRSRO, the security must meet such standards as may be necessary to be assigned a "highest category" rating, as determined by the Securities Lending Agent.
- B. Loan participation certificates of corporations whose commercial paper is rated in the highest category of at least two NRSROs at the time of purchase, or if the corporation has not received a rating from any NRSRO, the security must meet such standards as may be necessary to be assigned a "highest category" rating, as determined by the Securities Lending Agent.
- C. Short term obligations of banks, including, but not limited to, certificates of deposit, bankers' acceptances, and time deposits, [including without limitations any such instrument issued by the Securities Lending Agent or one of its affiliates.]
- D. Short term obligations of the United States Government or its agencies.
- E. Repurchase agreements. Permitted collateral shall be: bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities or establishments; mortgage-backed securities sponsored by agencies of the Government of the United States; corporate obligations of domestic and foreign issuers with a minimum rating of AA- by Standard & Poor's Corporation

("S&P") or Aa3 by Moody's Investor Services, Inc. ("Moody's"); asset-backed securities with a minimum rating of AAA of S&P or Aaa by Moody's or money market instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's). A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the Fund is fully collateralized.

- F. Short term investments (taxable or tax-exempt) of municipalities, including but not limited to, commercial paper, variable rate demand notes, and medium term notes, rated in the highest category of at least one NRSRO at the time of purchase, or in the case of credit enhanced obligations, the issuer of the credit enhancement shall be rated in the highest category of at least one NRSRO.
- G. Asset backed securities, including securities secured by, but not limited to, auto and truck loans, credit care receivables, home equity loans, company receivable and leases, which are rated in one of the top three categories of at least one NRSRO at the time of purchase. All asset backed securities shall have a floating rate of interest.
- H. Money market mutual funds registered under the Investment Company Act of 1940, as amended, and subject to the Rule 2a-7 restrictions, but not including such funds issued by an affiliate of the Securities Lending Agent.

IV. CONCENTRATION OF COLLATERAL INVESTMENTS

The Securities Lending Agent shall limit its investment to 5% of the market value of cash collateral in the securities of any one issuer at the time of purchase. The Securities Lending Agent shall limit its investment to 25% of the market value of the cash collateral in repurchase agreements with any single counter party at the time of purchase. The Securities Lending Agent shall limit its investment to 25% of the market value of cash collateral in a money market mutual fund at the time of purchase. There shall be no restriction with respect to purchases of U.S. treasury and agency securities.

V. MATURITY GUIDELINES

- A. All instruments must have a Final Maturity at the time of purchase that does not exceed two years. Final Maturity for purposes of these guidelines means the earliest of (i) the date noted on the face of the instrument as the date on which the principal amount must be paid; (ii) in the case of an instrument with an unconditional par or unconditional demand feature, the date on which the principal amount of the instrument can be recovered by demand; or (iii) in the case of a floating rate instrument, the next readjustment of the interest rate, provided that, if the maturity of a floating rate instrument is determined by reference to an unconditional put or unconditional demand feature, the period remaining between adjustments of the interest rate must not exceed two years. A floating rate instrument shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate, for purposes of calculating days to maturity of the instrument and the portfolio's weighted average maturity.

- B. A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.
- C. Adjustable rate mortgages will have a maturity equal to the period remaining until the last principal payment is required by the terms of the underlying obligation to be paid.
- D. The fund's maximum weighted average days to maturity may not exceed 60.
- E. No more than 25% of the value of the fund's portfolio may have a final maturity of more than one year, and in no event more than two years.

VI. PROHIBITED INVESTMENTS

- A. Equity securities (except that equity securities, such as owner trust certificates that have predominant debt characteristics shall not be prohibited).
- B. Floating rate securities with an interest rate cap, with the exception of those capped at a rate in excess of 20% to comply with state usury laws.
- C. Only U.S. Dollar denominated securities will be permissible under these guidelines.
- D. The Fund will not invest in any instrument whose coupon rate will move in the opposite direction of the index to which such instrument is tied. In addition, in the event that the fund invests in any instrument whose coupon rate moves when the index to which such rate is tied moves, the Fund shall invest only in those of such instruments whose movements in the coupon rate are equivalent to movements in the index.
- E. The Fund may not purchase securities based on either an S&P, Moody's, Fitch, or Duff rating where the rating organization has announced publicly that it is examining the rating for a possible downgrade. This limitation does not apply to securities rated A1+ by S&P.
- F. In the event that a security held in the portfolio falls below the minimum guideline as a result of being downgraded by either S&P, Moody's Fitch, or Duff, Securities Lending Agent will notify the client and await instructions.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
ANNUITY SAVINGS ACCOUNT**

Originally Adopted March 2, 1998

Last Restated February 9, 2007

I. INTRODUCTION

A. Purpose of the Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy

The Board adopted an Investment Policy Statement covering all the Fund's other assets (except for the Pension Relief Fund, the Legislators' Defined Contribution Plan and the Annuity Savings Accounts) on September 12, 1997. This Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy is intended to assist the Board of Trustees ("Board") of the Indiana Public Employees' Retirement Fund ("Fund") in managing the investment program established for the Annuity Savings Accounts.

B. Statutory Authority

The Annuity Savings Accounts are bookkeeping accounts established for each member of the Fund. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has investment direction to several alternative funds or may leave their account in the "guaranteed fund." The guaranteed fund affords the member a "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). Legislation has been enacted that will substantially enhance the members' investment direction opportunities, effective July 1, 1998. These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit. The Annuity Savings Accounts are subject to the following provisions:

1. The Board must maintain a "guaranteed fund" option. IC 5-10.2-2-3(b).
2. The Board must maintain an indexed stock fund option. IC 5-10.2-2-3(c)(1).
3. The Board must maintain a bond fund. IC 5-10.2-2-3(c)(1).
4. The Board may establish any other options it wishes, so long as the options represent a variety of investment objectives. IC 5-10.2-2-3(c)(2).
5. Administrative costs of each of the options must be paid from the earnings on that option. IC 5-10.2-2-3(c)(4).
6. A valuation of each member's Annuity Savings Account must be completed as of the last day of each quarter. IC 5-10.2-2-3(c)(5).

C. Primary Focus

The primary focus of this Addendum to Investment Policy Statement is to:

1. Outline the number and characteristics of investment options selected by the Board for the Annuity Savings Accounts.
2. Provide rate-of-return objectives and establish formal criteria to monitor and evaluate the performance results of the various investment options.

II. OBJECTIVES AND STRUCTURE OF THE ANNUITY SAVINGS ACCOUNT INVESTMENT PROGRAM

This Policy has been structured to provide Plan members with a choice of five diverse options that offer a range of risk and return characteristics appropriate for members. A member can select between the options subject to the following conditions from IC 5-10.2-2-3(e):

- A. A member may make a selection or change an existing selection under rules established by the Board, but must be allowed to change at least once each quarter.
- B. The Fund must implement the member's selection beginning the first day of the next calendar quarter that begins at least thirty (30) days after the selection is received by the Board. This date is the effective date of the member's selection.
- C. A member may select any combination of the Guaranteed Fund or any available alternative options, in ten percent (10%) increments.
- D. A member's selection remains in effect until a new selection is made.
- E. On the effective date of a member's selection, the Fund must reallocate the member's existing balance or balances in accordance with the member's direction, based on the market value for an alternative investment option on the effective date and by account balance for any Guaranteed Fund balance on the effective date. The Fund shall not reallocate the member's account at any other time.
- F. All further contributions to the member's account shall be allocated in accordance with the member's most recent effective direction.

The options currently include:

1. Guaranteed Fund
2. Bond Fund
3. S&P 500 Index Fund
4. Small Cap Equity Fund
5. International Equity Fund
6. Money Market Fund

The number and types of investment funds available will be periodically reviewed by the Board in order to ensure a diversity of investment alternatives, adequate and reasonable availability of investment types, and clarity and usefulness of the investment choices. The objective will be to provide, on an ongoing basis, a broad array of investment choices representing diverse investment types described by the underlying capital markets, investment return expectations and risk expectations (defined as volatility of investment return). The Board will also review the investment managers of the funds as provided for in Sections 6 and 7 of the Statement of Investment Policy.

Annually, the Fund is required to prepare a separate analysis of the fund options for distribution of the participants describing recent and historical performance results in terms expected to be understandable to the average participant. This analysis must:

- A. Include a description of the procedure for changing the member's investment allocations;
- B. Be understandable by the majority of members; and

C. Include a description of prior investment performance.

IC 5-10.2-2-3(d).

III. INVESTMENT POLICY GUIDELINES

A. Guaranteed Fund

The investment of the Guaranteed Fund will be part of the overall PERF general investment portfolio. The objective of the Guaranteed Fund is to provide investment in a broad array of stocks and bonds including investment in international equities in proportions designed to balance the return benefit expected of stocks with the lesser volatility of bonds. The Guaranteed Fund will be invested in the same manner as PERF, which investment program has been deemed to be consistent with the investment objective of this Fund. The Guaranteed Fund will be invested according to Section 5, Asset Allocation, of the Statement of Investment Policy, and according to the investment guidelines established in Section 7 of the Statement of Investment Policy.

B. Bond Fund

The objective of the Bond Fund is to provide investment in the broad domestic bond market. The Bond Fund will be invested according to the specific guidelines of the core, index fixed income portfolio as established in Section 7 of the Statement of Investment Policy.

C. S&P 500 Index Fund

The investment objective of the S&P Index Fund is to provide investment in the broad domestic equity market. The Fund will be invested according to the specific guidelines for the core, index equity portfolio as established in Section 7 of the Statement of Investment Policy.

D. Small Cap Equity Fund

The investment objective of the Small Cap Equity Fund is to provide investment in the stock of smaller domestic companies, typically referred to as small cap stocks. The Fund will be invested according to the specific guidelines for the core, enhanced index equity portfolio (with the index being a small capitalization market benchmark) as established in Section 7 of the Statement of Investment Policy.

E. International Equity Fund

The investment objective of the International Equity Fund is to provide a broad exposure to foreign equity markets of companies based outside the United States. The Fund will be invested according to the specific guidelines for the international equity index portfolio as established in Section 7 of the Statement of Investment Policy.

F. Money Market Fund

The investment objective of the Money Market Fund is to provide investment in short-term, principal preserving securities. The Fund will be invested according to the specific guidelines for

Short-Term Active Management – domestic fixed income portfolios, as established in Section 7 of the Statement of Investment Policy.

IV. PERFORMANCE OBJECTIVES

The Board has determined that it is in the best interest of the Plan's participants and beneficiaries that performance objectives be established for each investment alternative and it is clearly understood that these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Addendum. The performance of each individual option will be evaluated relative to a market index and to a meaningful peer group of active managers. The evaluation of performance results will be accomplished according to the standards established in Section 6 of the Statement of Investment Policy. Specific benchmarks for each option are delineated below.

- A. Guaranteed Fund - Composite of various benchmarks of PERF general portfolio
- B. Bond Fund - Lehman Brothers Aggregate Bond Index
- C. S&P 500 Index Fund - Standard & Poor's 500 Index
- D. Small Cap Equity Fund - Russell 2000 Index
- E. International Equity Fund – Morgan Stanley Capital International (MSCI) Europe Australasia Far East (EAFE) Index
- F. Money Market Fund – 90-day Treasury Bill Rate

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
PRIVATE EQUITY INVESTMENT PROCEDURES**

Originally Adopted March 2, 1998

Last Restated November 21, 2008

I. PRIVATE EQUITY INVESTMENT PROCEDURES

The Board of Trustees (the "Board") of the Public Employees' Retirement Fund (the "Fund") is committed to utilizing a global sourcing strategy in making partnership investment decisions. The private equity will be benchmarked versus the median return for all private equity funds as measured by Venture Economics. .

A. General Comments

The private equity market is highly sophisticated and specialized with respect to variety and types of investment structures. There exists major competition for deal flow on the part of both investors and general partners. To a great extent, market forces drive the bargaining of economic terms. Most investment vehicles are structured as commingled and often blind pool investment partnerships. The most common offering forms are equity private placements where the governing laws of the partnership agreement impose a passive role to the limited partner investors. These contractual arrangements are long-term in nature and provide the general partner or sponsor a reasonable time horizon to wisely invest capital, add value through intensive operational management, then realize the proceeds of such an investment. Moreover, terms of the partnership are proposed by the general partner and are critical to the economic incentives and ultimate net performance of the partnerships.

B. Investment Strategy and Plan Guidelines

To strengthen the diversification of the investments, several guidelines will be utilized in staff's formulation and recommended annual investment strategy and plan. These guidelines encompass the types of investment vehicles that can be utilized, controlling financing stage risks, industry concentration limits, acceptable contact with general partners, appropriate sizes for investments, and the preferred alignment of interests.

Specific guidelines should focus on the following important attributes of a particular partnership:

1. **Investment Vehicles:** Staff may utilize the following investment vehicles within the private equity portfolio: private limited partnerships; group trusts; limited liability companies; and co-investments alongside the Fund's existing general partners.
2. **Investment Timing Risks:** Staff should limit the potential for any one investment to negatively impact the long-term results of the portfolio by investing across business cycles. Moreover, the portfolio must gain exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle. Staff may also consider purchasing secondary partnership interests to shorten the effective life of the partnership interest and therefore positively impacting the current and long term net return of the portfolio.

3. Industry Concentration: The portfolio will be exposed to companies in a variety of industries. For venture capital, however, it is recognized that opportunities may be most readily realized in a selected number of industries.
4. General Partner Diversification: Staff will seek to work with a variety of general partners due to their specialized expertise in particular segments of the private equity market and source of their deal flow.
5. Investment Size: The Fund will be restricted from committing more than 15% of annual capital commitments in any single partnership, without Board approval. Additionally, the fund will be restricted from committing more than 15% of total capital commitments to an individual partnership without Board approval. To ensure geographical diversification, the target range for total commitments outside of the United States will be 35-50%.
6. Alignment of Interests: Staff shall actively negotiate partnership agreements on behalf of the Fund with a prime directive to ensure that interests of the general partner are aligned with those of the Fund and supported by all other similar limited partners. This should include a competitive fee structure with participating interest in the investment for the commensurate risks being taken. Staff will also delineate between sweat and cash equity being committed by the general partner with an emphasis on the latter with respect to the Fund's preferred alignment tool.
7. Special Services: Due to the complex nature of alternative investment formats and the acknowledgement private equity is a very high risk market, expert legal counsel will be retained by staff on an as needed basis. Investment Staff or the consultant may periodically be required to engage specialized firms to investigate principals for integrity, ethical problems, tax-related issues, etc. prior to an investment. Specialized firms may also be engaged to handle non-cash distributions from private partnerships.

C. Investment Selection Criteria

In building a private equity portfolio, the Fund's aim is to select the highest quality partnerships that will in turn offer a diversified private equity portfolio designed to outperform the targeted benchmark outlined above.

Sponsorship consideration will focus on the following important relative characteristics:

1. Quality and stability of the general partnership team
2. Previous investment track record
3. Proposed investment strategy
4. Alignment of interest with the Limited Partners
5. Legal and economic terms governing the partnership structure
6. Contribution to geographic and industry diversification of the portfolio

D. Implementation & Authority

The Board has the ultimate authority in making investment decisions. Detailed due diligence including an on-site visit, reference calling, financial modeling, and legal review will be completed prior to execution of a binding subscription agreement. The Board also recognizes that investment opportunities requiring more immediate action may be presented which may enhance the long-term performance of the Fund. Should such an investment opportunity arise, Staff and consultant may request that the full Board convene between regularly scheduled meetings, via conference call, to review investments and approve proceeding with additional due diligence. The Board's authorities as defined in this section may be delegated pursuant to the terms and conditions of Section 12 of this policy. The Fund in this asset class grants the following decision-making and management authority:

1. Role of the Board
 - a. Annual Investment Strategy and Plan review.
 - b. Approve commitments to specific partnerships or other specific alternative investments.
 - c. Approve commitments/sales as part of a need to rebalance the portfolio.
 - d. Approve renegotiated deal terms and exit strategies for troubled investments.
2. Role of the Staff
 - a. At least annually provide recommendations to the Board of changes to the Investment Strategy and Plan.
 - b. Evaluate prospective investment opportunities.
 - c. Assign appropriate staff members, in conjunction with the independent consultant, to source and review all investment opportunities. The decision to reject investment opportunities is delegated to Staff, with the stipulation that all submissions receive equal opportunity.
 - d. If final due diligence yields no objections in Staff's and Consultant's joint opinion, execute contracts and provide funds to the selected partnerships/vehicles at recommended commitment levels.
 - e. Review and negotiate amendments to existing agreements prior to their execution.
 - f. Monitor and review investment vehicles for adherence to objectives and guidelines.
 - g. Meet with partners regularly and, where invited as appropriate and at its sole discretion, sit on advisory boards on behalf of the Fund. Any compensation from the general partners must comply with PERF's policies.
 - h. Oversee the liquidation of in-kind distributions from partnerships in an orderly manner.
 - i. Annually evaluate performance measurement and record keeping systems.
 - j. Annually evaluate the performance of the independent consultant.

3. Role of the Independent Consultant

- a. Annually review the private equity portfolio for which the Independent Consultant has been retained, and evaluate such portfolio's investment strategy, as it relates to the overall Fund.
- b. Provide the Board and staff with relevant, reliable and timely research and information requests to fulfill their responsibilities.
- c. Participate in weekly investment team meetings
- d. Regularly review and discuss the investment strategy, and other relevant issues with staff.
- e. Assist staff in establishing appropriate asset allocation targets and ranges.
- f. Monitor and review partnerships and vehicles on an ongoing basis, for adherence to objectives and guidelines.
- g. Monitor existing partnerships and vehicles on an ongoing basis and, when appropriate, recommend their sale or replacement to staff.
- h. Assist staff in conducting partnership due diligence and in negotiating business terms and appropriate structural incentives.

4. Contract Authority

- a. Upon Board approval the Executive Director shall have the full and complete authority to enter into all contracts on behalf of the Fund for investment consulting, custodian, recordkeeping, subscriptions, purchase and sale contracts, and investment management services.
- b. The Executive Director may appoint one (1) person employed by the Fund to supervise and manage the contracts covered by this policy. This person shall have such authority as may be set forth in this policy or as may be delegated by the Executive Director in writing.

5. Contract Terms

- a. No contract shall obligate the Fund for a period in excess of fifteen (15) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that any individual option period or extension does not exceed five (5) years in duration

6. Contract Conditions

- a. No contract with the Fund may contain any terms or provisions prohibited by Indiana or federal law.
- b. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.
- c. In all contractual decisions, the Executive Director and/or the Board of Trustees shall take into account the particularly sensitive nature of the Fund and shall consider the

competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.

7. Public Records

- a. Except as provided in subsection b, all documentation related to the above mentioned procedures shall be available for public inspection following execution of the contract, except to the extent the disclosure is prohibited by law.
- b. The Executive Director may exempt from public disclosure, at any time, procurement records that are exempt from mandatory disclosure under IC 5-14-3-4 and under the Alternative Investment Information Policy as adopted by the Board of Trustees.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND RESTATEMENT OF
INVESTMENT POLICY FOR
ALTERNATIVE INVESTMENT INFORMATION DISCLOSURE POLICY**

Originally Adopted November 14, 2003

Last Restated December 17, 2004

I. ALTERNATIVE INVESTMENT INFORMATION DISCLOSURE

In order to comply with the Access to Public Records Act (“APRA”), specifically, IC 5-14-3-1, et seq., the Board of Trustees (“Board”) of the Indiana Public Employees’ Retirement Fund (“PERF” or “the Fund”) hereby adopts this policy regarding disclosure of private equity investments.

A. General Principles

The Board appreciates its public role as an independent body corporate and politic exercising its responsibility to be publicly accountable for its investment decisions made on behalf of the participating public employees of the State of Indiana. As a separate corporate body, the Board is required to comply with the public records provisions of APRA.

Generally, public records of the Board must be available for public disclosure. However, APRA prohibits disclosure of records that contain trade secrets. APRA provides that records containing trade secrets may not be disclosed by a public agency unless specifically required by statute or under the rules of discovery. See IC 5-14-3-4(a)(4).

Therefore, in order to comply with the APRA, the Board adopts this disclosure policy with respect to investments made within the alternative investment portfolio of the Fund.

B. Alternative Investments Disclosure Policy

Subject to the procedures and any other restrictions applicable under the APRA, the Board will allow the Staff of PERF to disclose information such as the legal name of partnership investments, general partners, or investment managers that have been selected by the Board as alternative investment managers. PERF will also disclose a summary of the aggregate returns of the alternative investment portfolio.

However, in order to comply with APRA’s prohibition on disclosure of the records that contain trade secrets, the Board and Staff of PERF are prohibited from disclosing any information on the underlying investments made by the partnership or managers and their individual performance contribution to the alternative investment portfolio.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
INVESTMENT PROCUREMENT**

Originally Adopted June 8, 2000

Last Restated December 17, 2004

I. ADDENDUM TO INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND RESTATEMENT OF INVESTMENT POLICY FOR INVESTMENT PROCUREMENT

The Board of Trustees of the Public Employees' Retirement Fund ("Fund") is committed to utilize a public and competitive process in making its investment procurement decisions.

A. Procurement Authority

1. The Executive Director, with approval of the Board of Trustees, shall have the full and complete authority to enter into all contracts on behalf of the Fund for investment consulting, custodian, and investment management services.
2. The Executive Director may appoint one (1) person employed by the Fund to supervise and manage the contracts covered by this policy. This person shall have such authority as may be set forth in this policy or as may be delegated by the Executive Director in writing.

B. Procurement Policy

1. In all procurement decisions, the Executive Director shall take into account the particularly sensitive nature of the Fund and shall consider the competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.
2. All decisions made under this policy by the Executive Director shall be final except as otherwise specifically set forth in this policy.
3. The Board of Trustees intends to operate with written contracts whenever feasible.
4. The Board of Trustees intends that its Investment Policy control in all circumstances.

C. Applicability

This policy is meant to govern the procurement of investment consulting, custodian, and investment management services, except for amendments, modifications, or extensions of existing contracts, unless the predominate purpose of an amendment or modification is to avoid the applicability of this policy. However, if an emergency exists with respect to any Fund assets, the Executive Director or the Board of Trustees may take any actions they deem necessary and appropriate to safeguard the assets for a temporary period, until permanent disposition of those assets can be made under this policy.

II. GENERAL PROCUREMENT

- ### A. The Executive Director or the Executive Director's designee shall procure services through the use of one of the following procurement methods or any combination thereof:
1. Request for proposals.
 2. Special procurement.

3. Any other method or process which is approved by the Board of Trustees of the Fund for a specific contract, or series of contracts, for services, including, but not limited to, use of requests for information or prequalification.

B. Request for Proposals

1. Unless one of the other methods applies, proposals shall be solicited through a request for proposal, which must include the following:
 - a. Factors or criteria that will be used in evaluating the proposals.
 - b. General statement concerning the relative importance of price and the other evaluation factors.
2. Public notice shall be given in the manner described in this policy.
3. Proposals shall be opened so as to avoid disclosure of contents to competing firms during the process of negotiation.
4. A register of proposals shall be prepared and must be open for public inspection after contract award. The register of proposals must contain the following:
 - a. Copy of the request for proposals.
 - b. Listing of all proposals received.
 - c. General basis on which award was made.
 - d. Entire contents of the contract file except for proprietary information or financial information which was not required to be made public by the terms of the request for proposal itself.
5. The request for proposal will contain a clear statement as to whether or not any communication with the Fund may be initiated by a respondent after publication of the request for proposal and before final selection, what may be contained in such communication, who the respondent may contact, and whether or not the Fund will respond. However, the Fund reserves the right to discuss any part of any response at any time for the purpose of clarification. No member of the Board of Trustees, employee of the Fund, or consultant or advisor to the Fund shall have any communications with a respondent or a representative of the respondent about the respondent's proposal or the request for proposal after publication and before final selection, except as otherwise provided in the request for proposal. Respondents must be given equal access to any communications about the request for proposal between the Fund and other respondents. The Fund will make available a recapitulation of the subject matter of any communication and the response of the Fund. The Fund may make such information available by posting it on the internet. Respondents must be accorded fair and equitable treatment with respect to any opportunity for discussion and revision of proposals. In conducting any communications, there must be no disclosure of any information derived from proposals submitted by competing respondents.

6. Award shall be made to the responsible respondent whose proposal is determined in writing to be most advantageous to the Fund, taking into consideration price and other evaluation factors set forth in the request for proposals, and the applicable provisions of IC 5-10.2 and 5-10.3.
7. The only factors or criteria that may be used in the evaluation of proposals are those specified in the request for proposals and the applicable provisions of IC 5-10.2 and 5-10.3.
8. Public notice of a request for proposal shall be made by publication at least once in one (1) newspaper of general circulation in Marion County, Indiana. The Executive Director may designate additional newspapers or industry publications for the publication of notice, such as Pensions and Investments. The Executive Director may send notices or requests for proposals by mail to prospective bidders or offerors known to the Executive Director to be reasonably susceptible to award of the contract. However, failure to give notice to a particular bidder or offeror does not invalidate a procurement under this rule.

C. Special Procurement

1. Notwithstanding any other provisions of this policy, the Executive Director may make, or authorize the Chief Investment Officer to make, special procurements:
 - a. When the current business process or continuity of services is a substantial consideration in the procurement;
 - b. When the Executive Director or the Chief Investment Officer states in writing the determination that there is only one (1) appropriate or viable source for the required service; or
 - c. When there is a reallocation of investment services among current service providers to the Fund.
2. A special procurement must be made with such competition (if any) as is practicable under the circumstances as determined by the Executive Director or Chief Investment Officer.
3. A written determination of the basis for the special procurement must be included in the contract file.

D. Cancellation; Rejection; Amendment of Solicitations

1. When the Executive Director, with approval of the Board of Trustees, determines that it is in the best interests of the Fund, any request for proposal may be withdrawn or cancelled. Additionally, the Executive Director may reject in whole or in part any bids, proposals, or offers that have been submitted at any time prior to the effective date of the resulting contract.
2. The reasons for the withdrawal, cancellation or rejection must be made a part of the record.
3. The Executive Director may amend any solicitation in any manner provided that notice is given in a manner reasonably calculated by the Executive Director to provide fair and equitable notice to the potential vendors.

E. Disclosure Requirements for Procurements

1. All respondents shall submit the information required by the process at the time of submission of its bid, proposal, or offer. Immediately prior to execution of a contract by a vendor, the vendor shall update the disclosures. The vendor shall be under a continuous duty, in accordance with the provisions of the vendor's contract.
2. The Executive Director may require such additional disclosures as may be desired for the purpose of enforcing, auditing, investigating, or confirming the accuracy of the disclosures or for any proper purpose.

F. Contract Terms

No contract shall obligate the Fund for a period in excess of five (5) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that:

1. any individual option period or extension does not exceed five (5) years in duration; and
2. any individual option period or extension may become effective only upon the specific, affirmative exercise of the option, or the specific, affirmative agreement to the extension, by the Executive Director.

G. Contract Clauses

No contract with the Fund may contain any terms or provisions which are prohibited by Indiana or federal law. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.

H. Public Records

1. Except as provided in subsection 2, all procurement records shall be available for public inspection following award of the contract or cancellation of the procurement, except to the extent the disclosure is prohibited by law.
2. The Executive Director may except from public disclosure, at any time, procurement records which are exempt from mandatory disclosure under IC 5-14-3-4.

III. PROCUREMENT CLAIMS AND APPEALS

A. Application

Pursuant to IC 4-21.5-2-5(11), procurement decisions by the Fund or the Executive Director are not subject to IC 4-21.5. In lieu thereof, vendors or prospective vendors, shall follow the procedures of and have the remedies available under this policy in the event of a protest of any procurement decision of the Executive Director or his designee.

B. Appeal of Award or Decision to Award a Contract

1. Any prospective vendor may appeal the award or decision to award a contract by filing a written appeal within seventy-two (72) hours after the award, after receipt of notice of the award, or after the announcement of the decision to award is posted or published, whichever occurs first.
2. The only grounds for filing an appeal under this policy are as follows:
 - a. A procurement decision was not made in compliance with the procedures required by this policy.
 - b. A procurement decision was made in violation of any rules regarding ethics promulgated by the Fund.
3. The appeal shall be in writing and shall state the following, the decision which is being appealed, all grounds for the appeal, and any other information necessary to identify the contract, bid, or request involved in the appeal. It shall also include all evidence or supporting material the prospective vendor wishes to submit.
4. No appeal shall be made under this policy on the grounds that the prospective vendor was not determined to be a responsible bidder.

C. Notice

A notice of appeal shall be filed by mailing the notice to the Executive Director at the principal office of the Executive Director in Indianapolis by registered or certified mail, return receipt requested, or by delivering the notice of appeal to the principal office of the Executive Director in Indianapolis. Filing by registered or certified mail shall be effective upon mailing.

D. Executive Director's Review of an Appeal

The Executive Director shall issue a decision on a claim within thirty (30) days after the claim was filed, which shall be final. The Executive Director shall state the reasons for denial of any appeal filed under this policy. A copy of the decision shall be mailed by certified or registered mail, return receipt requested, to the entity who filed the claim. The decision may order such relief (if any) as is in the best interests of the Fund. Relief may include, but is not limited to, voiding the selection and redoing the process, and damages.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
SECURITIES LITIGATION POLICY**

Adopted December 17, 2004

Last Restated _____

I. STATEMENT OF INTENT

This securities litigation policy of the Board of Trustees of the Public Employees' Retirement Fund (PERF) is established to provide a process for the monitoring of pending legal actions in which PERF is a potential member of a plaintiff's class or otherwise possesses an independent right to a securities law claim. As a fiduciary, PERF has a duty to monitor and evaluate such actions in which it may potentially be a member or participant. This policy contains PERF's process and guidelines for evaluating whether active participation in securities litigation claims should be undertaken by PERF.

II. IDENTIFYING AND EVALUATING POTENTIAL CLAIMS

Claims may generally be identified either by internal portfolio managers and analysts or the class action bar. Experience has shown that the class action bar typically identifies and files actions on almost all claims first. Staff will determine the most expedient method to identify claims in which PERF has an interest. If PERF may qualify to recover, further review by staff will be undertaken to determine if PERF should remain a member of the class or undertake a more active level of participation. Consideration will be given to the following factors:

1. whether PERF holds or held, at the relevant time, more than one percent of the company's outstanding shares;
2. whether PERF is, or was at the relevant time, one of the top 25 shareholders;
3. whether the potential damages arising from PERF's claim could exceed .5% of the CRIF; and
4. any other factor considered relevant by staff conducting the review.

If, after reviewing these factors, staff determines that additional examination is warranted and that the potential exists for PERF to add significant value to the claim by actively participating, or opting out of a potential class of litigants and pursuing a claim independently, review of the potential claim will be referred to an evaluation counsel, in accordance with the process outlined below.

III. EVALUATION COUNSEL

If further evaluation is determined to be warranted, an evaluation counsel may be retained to perform additional due diligence regarding the claim. PERF may retain evaluation counsel through the issuance of an RFP on a case by case basis, or by issuing an RFP that selects any number of firms to be subsequently used in individual cases when a referral to an evaluation counsel is determined to be warranted by staff reviewing a case. Additional due diligence may include, without limitation: assessment of the complaint, SEC filings and company disclosures, contacts with other investors, consideration of non-litigation alternatives, and potential conflicts with other class members. The evaluation counsel will make a recommendation to the Executive Director, the Chief Investment Officer, and the General Counsel based upon their due diligence as to whether more active participation or opting out of a class action and pursuing a claim independently by PERF would add significant value to any other options for recovery.

IV. STAFF REVIEW AND CONSULTATION WITH INVESTMENT COMMITTEE

Following a review of the potential claim by staff and receipt of the recommendation of the evaluation counsel, the Executive Director, Chief Investment Officer, and the General Counsel will make a formal recommendation to the Board for approval.

V. SELECTION OF SECURITIES LITIGATION COUNSEL

If the Board approves active involvement in a securities litigation claim, an RFP will be issued pursuant to the Investment Procurement Policy to retain appropriate outside counsel to pursue such claims directly on behalf of the Board of Trustees of PERF. The Board shall make a selection of the counsel that the Board deems best able to represent PERF's interests in pursuing such action.

In cases when PERF initiates litigation because it has determined it would be best to work with another institutional investor, staff may recommend, and the Board may conclude, that the most sensible and cost effective source of legal representation will be the PERF General Counsel's Office or the legal counsel representing such institutional investor that PERF wishes to support.

VI. CASE MANAGEMENT

The authority to settle, withdraw from or otherwise terminate a securities litigation matter initiated by PERF pursuant to this Policy rests with the Board, but the Board may delegate such authority to the Executive Director and/or General Counsel.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
PENSION RELIEF FUND**

Adopted December 8, 2006

Last Restated _____

Background

The Board adopted an Investment Policy Statement covering all the Fund's other assets (except for the Pension Relief Fund, the Legislators' Defined Contribution Plan and the Annuity Savings Accounts). This Addendum to the Indiana Public Employees' Retirement Fund Restatement of Investment Policy is intended to assist the Board of Trustees ("Board") of the Indiana Public Employees' Retirement Fund ("Fund") in managing the investment program established for the Pension Relief Fund.

IC 5-10.3-11-1 creates the Pension Relief Fund. It is designed to relieve cities and towns from some of the liability for benefit payments under the 1925 Police Fund, the 1937 Firefighters Fund and the 1953 Police Fund, and is funded through state and local sources. IC 5-10.3-11-3. IC 5-10.3-11-4 establishes the formulas under which distributions are made to cities and towns for benefit payments. The Pension Relief Fund may be commingled with other PERF assets for investment purposes.

I. Application of Investment Policy

With the exception of Section 5 of the Investment Policy Statement, the investment of the Pension Relief Fund remains subject to the other guidelines and requirements found in the Investment Policy Statement.

II. Asset Allocation

Based on the asset/ liability modeling study conducted for PERF assets, including the Pension Relief Fund, the Board has adopted an asset allocation structure of:

Asset Classes	Target Norm	Allowable Range
Equities - S&P 500 Index	30%	25% to 35%
Fixed Income - Intermediate Gov/Credit Index	70%	65% to 75%

III. Rebalancing

The Board has determined that tactical asset allocation in anticipation of expected future market fluctuations is not in the best interest of the Pension Relief Fund. However, differential market returns may from time to time cause the allocation to move outside of the allowable ranges. Therefore, the Board has determined that a systematic and objective reallocation from one class to another is an appropriate activity for ensuring compliance with the asset allocation for the Pension Relief Fund.

Actual asset class values versus target/range values will be evaluated by the Investment Staff and the portfolio will be rebalanced as needed to keep the portfolio within the ranges established in this Addendum.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
ABSOLUTE RETURN INVESTMENT PROCEDURES**

Adopted November 21, 2006

Last Restated _____

II. ABSOLUTE RETURN INVESTMENT PROCEDURES

The Board of Trustees (the "Board") of the Public Employees' Retirement Fund (the "Fund") is committed to utilizing a global sourcing strategy in making investment decisions; however, the Board has deemed it more effective to institute a selection process for alternative investment strategies that is structured, disciplined and collaborative between the Staff and an independent consultant. Staff and the independent consultant will maintain an open process that encourages consideration of a broad number of investment opportunities. Such process should result in the selection of higher quality investment managers and funds from which to construct the absolute return strategies program (hereinafter the "Program").

A. General Comments

Absolute return strategies generate returns by exploiting mis-pricings and inefficiencies in global capital markets while attempting to reduce exposures to primary market factors (i.e., interest rates, equities...etc.) through various hedging techniques. The addition of absolute return strategies presents an opportunity to enhance returns and reduce overall portfolio volatility assuming the Absolute Return program is constructed with the proper asset allocation among the various absolute return strategies and fund selection is properly aligned with the objectives of the Program.

Direct investing in absolute return strategies requires sophisticated risk management systems, operational infrastructure, trading capabilities and specialized investment expertise. Implementation of absolute return strategies also involves the use of borrowing, short selling, sophisticated hedging techniques and use of derivative instruments. Consequently, the Fund will avoid direct investing at the asset and security level as a means of implementing the absolute return strategies Program. The Program will be implemented by placing assets in limited liability vehicles under the management and discretion of third party managers. These managers may manage and operate hedge funds or fund of hedge funds and may be domiciled "offshore." In general, these vehicles carry cost structures that include management and incentive fee components which align the interests of investors with the performance of the vehicle and or its management company.

B. Investment Strategy and Plan Guidelines

The Program will seek diversification among absolute return strategies in accordance with established guidelines. These guidelines will be utilized in staff's formulation and recommendation of an annual investment strategy and plan. These guidelines will detail the types of strategies to be pursued by staff as well as strategy limits, maximum allocations and liquidity.

The establishment of sourcing guidelines or qualifications will provide staff with a defined universe of investment opportunities and generate an alignment between the resources and core objectives of the Program. Funds that do not meet the guidelines may still provide staff and the Consultant with market and strategy insights from which the Program may benefit thus allowing for the development of a focused list of potential or future investment opportunities.

The sourcing guidelines should focus on the following important attributes of absolute return managers, investment programs and vehicles:

1. Capacity in the appropriate vehicle.
2. Performance history.
3. Minimum in assets under management for the relevant strategy.
4. Initial lockup and redemption provisions.
5. Maximum ownership interest of the vehicle by the Fund.
6. Fund transparency (confidentiality agreements may be necessary).
7. Fees and alignment of economic interests.
8. Agreement to certain side-letter provisions important to the Fund.

The Program may also from time to time fund managers that exhibit attractive risk/return profiles that do not offer the full diversification benefits of an absolute return mandate. The purpose of such an allocation should be designed to be a more “directional” allocation and thus will carry more systemic exposure. As such, these mandates should be limited to 50% of the target absolute return allocation at cost and should never exceed 50% of the maximum allowable absolute return allocation. The assets allocated under these mandates may deviate from the hedge fund structures as outlined above and will be evaluated against appropriate benchmarks.

C. Investment Selection Criteria

In building the Program, the Fund's aim is to select the highest quality management companies and vehicles that will provide diversification to a portfolio of absolute return strategies designed and constructed to achieve the following objectives:

Category	Objective
Return:	LIBOR + 400 bps
Volatility (Standard Deviation):	Less than 6%
Correlation (R^2):	Less than 0.5 to any asset class in the portfolio

By utilizing a well documented and comprehensive due diligence process the Fund's goal is to identify investment opportunities that deliver above average returns for their given strategy classification.

The Staff and Consultant will take the following considerations into account:

1. General Partner Investment Experience and Stability
2. Business Philosophy and Ownership
3. Investment Staffing, Turnover and Key Person Dependency
4. Number and Scope of Investment Products
5. Assets and AUM Growth History
6. Investment Strategy and Track record
7. Decision Making and Research Process
8. Risk Management Philosophy and Resources
9. Leverage Utilization and Means
10. Terms
11. Reporting and Transparency

The Consultant will perform operational due-diligence and take the following operational risk considerations into account:

1. Operational Infrastructure, Procedures and Resources
2. Experience of Operations Staff
3. Business Complexity
4. Background Investigations of Key Professionals
5. Conflicts of Interest
6. Legal, Compliance and Controls

D. Implementation & Authority

E. The Board has the ultimate authority in making investment decisions. Detailed due diligence including an on-site visit, reference calling, financial modeling, and legal review will be completed prior to execution of a binding legal agreement. The Board also recognizes that investment opportunities requiring more immediate action may be presented which may enhance the long-term performance of the Fund. Should such an investment opportunity arise, Staff and consultant may request that the full Board convene between regularly scheduled meetings, via conference call, to review investments and approve proceeding with additional due diligence. The Board's authorities as defined in this section may be delegated pursuant to the terms and conditions of Section 12 of this policy. The following summarizes the roles and responsibilities of the Board, Staff and Consultant as well as certain matters related to contracting and public records:

1. Role of the Board
 - a. Review Annual Investment Strategy and Plan.
 - b. Approve the Fund's policy allocation to absolute return strategies.
 - c. Approve the Fund's selection and retention of an independent absolute return strategies consultant.
 - d. Approve commitments and partial or full redemptions as needed to rebalance or address issues that impact the performance of the Fund.

2. Role of the Staff
 - a. At least annually present changes to the Investment Strategy and Plan to the Board.
 - b. Source and evaluate, in conjunction with the Consultant, prospective absolute return investment opportunities.
 - c. Review and negotiate side letters and or amendments to existing agreements prior to their execution.
 - d. Execute agreements and provide funds to the selected management companies and vehicles at prudent and defined commitment levels.
 - e. Monitor and review investment vehicles for adherence to strategy, objectives and guidelines.
 - f. Monitor and review the Program for adherence to strategy, objectives and guidelines.
 - g. Meet with management companies regularly to review performance, strategy staffing and business stability.
 - h. Annually evaluate the performance of the independent consultant.
3. Role of the Independent Consultant
 - a. Annually review the Program for which the Independent Consultant has been retained, and evaluate such Program's investment strategy, as it relates to the overall Fund.
 - b. Provide performance reports to staff on a monthly basis.
 - c. Provide the Board and staff with relevant, reliable and timely research and information requests to fulfill their responsibilities.
 - d. Regularly review and discuss the investment strategy, and other relevant issues, with staff.
 - e. Assist staff in establishing appropriate asset allocation targets and ranges.
 - f. Monitor and review investment opportunities and vehicles on an ongoing basis, for adherence to objectives and guidelines.
 - g. Monitor existing investments and vehicles on an ongoing basis and, when appropriate, recommend their sale or replacement to staff.
 - h. Assist staff in conducting due diligence and in negotiating business terms and appropriate structural incentives.
 - i. Perform full operational due diligence review and monitor firms regularly.
4. Contract Authority
 - a. The Executive Director shall have the full and complete authority to enter into all contracts on behalf of the Fund for investment consulting, custodian, recordkeeping, subscriptions, purchase and sale contracts, and investment management services.

- b. The Executive Director may appoint one (1) person employed by the Fund to supervise and manage the contracts covered by this policy. This person shall have such authority as may be set forth in this policy or as may be delegated by the Executive Director in writing.

5. Contract Terms

No contract shall obligate the Fund for a period in excess of five (5) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that any individual option period or extension does not exceed five (5) years in duration.

6. Contract Conditions

- a. No contract with the Fund may contain any terms or provisions prohibited by Indiana or federal law.
- b. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.
- c. In all contractual decisions, the Executive Director and/or the Board of Trustees shall take into account the particularly sensitive nature of the Fund and shall consider the competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.

7. Public Records

- a. Except as provided in subsection b, all documentation related to the above mentioned procedures shall be available for public inspection following execution of the contract, except to the extent the disclosure is prohibited by law.
- b. The Executive Director may exempt from public disclosure, at any time, procurement records that are exempt from mandatory disclosure under IC 5-14-3-4 and under the Alternative Investment Information Policy as adopted by the Board of Trustees.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
REAL ASSETS**

Adopted November 21, 2006

Last Restated _____

I. Role Of Real Assets

Indiana Public Employees' Retirement Fund ("PERF") has determined that the primary role of the real asset class is to provide for the following:

- **Attractive risk adjusted** returns through active management and ability to access managers with the expertise and capabilities to exploit market inefficiencies in the asset class.

The illiquid nature of real assets investments combined with the complexity of investments makes it difficult for casual investors to effectively access the asset class effectively.

It is the belief that through active management and by investing in top tier managers with interests aligned through co-investment and incentive based compensation, PERF can maximize its risk adjusted returns.

This active management approach will be pursued.

- **Diversification benefits** through low correlations with other asset classes, primarily the U.S. equity markets.
- Provide a **hedge against unanticipated inflation**, which real assets have historically provided due to lease structures and the increases in material and labor costs during inflationary periods.
- Permit PERF to invest in **unique opportunities** that arise due to dislocations in markets that occur from time to time.

II. Allocation to Real Assets Class

PERF has approved a target real assets allocation of ten percent (10%) of the total fund for real assets investments.

PERF will endeavor to achieve any differences between the actual allocation and target allocation by averaging into the market over a three to five year period, thus avoiding any concentrated vintage year risks.

III. Return Objective

The long term objective for the PERF real assets portfolio is a real rate of return (adjusted for inflation) of six percent (6%) net of investment management fees.

This return shall be calculated on a time-weighted basis using industry standard reporting methodologies as defined by the CFA Institute and relevant investment indices on a three, five and ten year basis.

The return objectives shall be viewed on a long term basis. For early periods of the investment program, there will likely be a "J" curve effect where investment management fees may be paid on committed capital.

Due to the emerging nature of the PERF real assets program, the first several years of the investment program will be negatively impacted by this "J" curve effect. As the program matures, the impact will diminish as returns are realized on liquidating funds to balance out fees on new investment funds.

PERF will seek, where possible, to limit the impacts of the "J" curve, although not at the expense of mid to long term performance.

IV. Investment Policies

For purposes of this investment Policy, the real assets investment universe is divided into the following sectors, with descriptive attributes to follow:

A. Core Properties

- Operating, substantially leased office, retail, industrial or apartment properties. Several alternative property types may be included in Core such as self-storage, medical office, ground leases, senior housing and triple net leased properties to the extent they exhibit similar risk and return attributes to the traditional Core property types.
- Generally have institutional qualities for size, physical attributes and location.
- Long-term expected total returns of 7%-9% per year (net of fees and promoted interest), with a high proportion of the total return to be generated from current income and a small proportion of the total return generated from appreciation.
- Leverage for core properties is moderate with an upper limit of 50% loan to value.

B. Value Added Properties

- Office, retail, industrial or apartment properties that have moderate risk associated with their investment. Several alternative property types may be included in Value-Added such as self-storage, medical office, senior housing and triple net leased properties to the extent they exhibit similar risk and return attributes for Value-Added investments.
- Value-Added investments are targeted to capitalize on defects with specific properties that can be identifiable and correctable through leasing, re-development, management and/or recapitalization.

- Long-term expected total returns for value added investments are 9% to 12% per year (net of fees and promoted interest).
- Leverage for value added investments is generally limited to approximately 65% loan to value.

C. Opportunistic Investments

- Opportunistic investments can be comprised of any property sector. Opportunistic investments can include office, retail, industrial and apartments with high-risk attributes. In addition, hotels, operating companies, development, land and distressed properties are all examples of opportunistic investments
- Leverage for opportunistic investments can be 75% loan to value or higher in certain cases.
- Long-term expected total returns for Opportunistic investments are in excess of 12% (net of fees and promoted interest) in order to compensate for the additional risk commensurate with the increased risk compared to core property investments.

D. Public Securities

- Real estate public securities (“Public Securities”) do not allow control over the assets or management.
- Public Securities generally have higher risk and return characteristics than Core properties due to higher leverage and operating company risks. In addition, the daily pricing of securities result in additional reported volatility of returns.
- Daily pricing and public market trading provide liquidity. However, due to small float and limited market capitalization of Public Securities, improved liquidity may come at a price.
- The emergence of the international Public Securities market has broadened the universe to include Asia, European, Australian and North American property companies.
- Long-term expected returns are approximately 9%-11% (net of fees) for U.S. Public Securities and 11-13% (net of fees) for non-U.S. Public Securities.

E. Commercial Mortgages

- Commercial mortgage returns are sensitive to interest rates, spreads and credit quality. Duration of commercial mortgage portfolio is generally high due to yield maintenance pre-payment penalties in most mortgages.

- Commercial mortgages have bond-like risk/investment characteristics, with real estate serving as collateral. Commercial mortgages have similar upside potential relative to other fixed income instruments.
- Investment in commercial mortgages can be accomplished through public or private market vehicles and can be investment grade or non-investment grade.
- Long-term expected total return from mortgages is 200-1500 basis points or more over comparable treasuries. The proliferation of distressed debt platforms has created investment programs that range from Core to Opportunistic type risk and return characteristics.

F. Commodities

- Description: Investment in a portfolio of commodities related securities, including futures, options, swaps, and listed securities, that substantially matches the composition and characteristics of the benchmark index.
- Investment Constraints: Only dollar denominated securities may be held, unless specifically approved by the Board.
- Benchmark: Specific benchmarks will be established in the contract for each manager/strategy.
- Tracking Error: Specific guidelines regarding tracking error will be established in the contract for each manager/strategy.

PERF will seek to ensure sector diversification by targeting the following ranges:

Core and low Risk Commercial Mortgages:	10% to 40% of the total target allocation
U.S. Public Securities:	10% to 20% of the total target allocation
Non-U.S. Public Securities:	0% to 10% of the total target allocation
Value Added:	0% to 40% of the total target allocation
Opportunistic:	0% to 40% of the total target allocation
Natural Resources (i.e., timber and agriculture):	0% to 20% of the total target allocation
Commodities:	0% to 50% of the total target allocation

Initial funding would be no more than the maximum of the stated target range without Board approval. Due to market fluctuations, PERF recognizes that the aforementioned sectors may move outside of these targeted ranges. The maximum exposure to any sector due to market appreciation will be 50% above the maximum range, such that the total amount of money invested in real assets does not exceed the maximum target established in Section 5 of this policy.

V. Investment Vehicles

Due to the size of PERF's portfolio, the preferred investment structure is commingled funds. Exceptions may be for public equity accounts which may be efficiently invested through a separate account.

PERF may also consider co-investment opportunities in cases where discounted fees and appropriate diversification can be achieved for a particular investment opportunity.

Staff may also consider purchasing secondary partnership interests to shorten the effective life of the partnership interest and therefore positively impacting the current and long term net return of the portfolio

VI. Diversification

PERF will seek to control risk in its real asset investment program by diversifying its investments by investment manager, property type and location diversification.

A. Investment Manager

PERF will limit the amount committed to one investment manager to no more than twenty five percent (25%) of the total targeted allocation for real assets investments.

PERF shall not comprise greater than 25% of any commingled investment fund.

B. Property Type Diversification (Excluding Commodities)

PERF will seek to limit investments by property type diversification using the following limits:

Office: 0% to 40% of the total target allocation

Retail: 0% to 40% of the total target allocation

Apartment: 0% to 40% of the total target allocation

Industrial: 0% to 40% of the total target allocation

Natural Resources: 0% to 20% of the total target allocation

Other: 0% to 40% of the total target allocation

(other includes hotels, self-storage, parking, infrastructure etc.)

VII. Leverage

PERF recognizes that leverage is an inherent component of real assets investments and use of leverage can be an effective means to increase overall returns from time to time on a risk-adjusted basis. There will be a limit of 75% of the total portfolio placed on the use of leverage.

All portfolio leverage will be secured through the individual fund investments. There will be no recourse debt permitted.

VIII. Investment Size

The maximum investment size for any single investment shall be limited to fifteen percent (15%) of the total real assets targeted allocation, or \$100 million, whichever is greater. For separate accounts investing in commodities and real estate securities, the limit shall be 25%.

**ADDENDUM TO
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
RESTATEMENT OF INVESTMENT POLICY FOR
CASH EQUITIZATION**

Adopted November 21, 2006

Last Restated _____

1.1 PERF has a target allocation to cash of 0%. However, cash must be kept in the plan to pay benefit disbursements and other expenses. In an effort to minimize cash exposure at both the fund and manager level, PERF retains a policy implementation overlay manager to more closely align the actual portfolio with the policy portfolio, generally through the buying and selling of futures contracts to increase or decrease asset class exposures, as necessary. No leverage is allowed in the cash equitization program.